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SUBJECT: CHINA ECONOMY: PARTY POLITBURO MEETS TO
DISCUSS ECONOMIC DIRECTION

¶1. (SBU) SUMMARY: The Chinese Communist Party (CCP) Political Bureau met on November 27 to discuss next year's economic policy ahead of the major State Council planning session, rumored to start December 10. The official Politburo statement released after the meeting called for policy continuity and stability in 2010, maintaining a mix of "proactive fiscal policy and appropriately loose monetary policy." The meeting apparently endorsed a greater focus on consumption, private investment, exports and "new" industries, while failing to comment on important economic reforms up for consideration. Although the Politburo may have achieved a degree of consensus going forward, internal debates are expected to continue as China assesses the external economic environment and the success of its own policies. END SUMMARY.

The Meeting at Face Value

¶2. (SBU) As it does every year, the Chinese Communist Party Politburo, presided over by Party Chairman Hu Jintao, met to set the tone for the upcoming government Central Economic Work Conference (CEWC). A statement released upon conclusion of the meeting indicated economic policy in 2010 will focus on "maintaining sustainable and stable macroeconomic policies" and "continuing to implement a proactive fiscal policy and moderately loose monetary policy" while leaving room to adjust to changing conditions.

¶3. (SBU) The meeting, according to official media, had five areas of emphasis: 1) improving the quality and efficiency of economic growth; 2) promoting transformation of China's economic development model and structural adjustment; 3) furthering economic reform and opening, and self-innovation; 4) improving livelihoods and maintaining social harmony and stability; and 5) coordinating domestic and international factors while making efforts to achieve the usual "stable and relatively fast" economic growth. The meeting resolved that economic policies should continue to promote domestic demand (particularly consumption), rational investment growth, structural adjustment and "new industry" development, rural economic development, energy efficiency and emissions reductions, steady trade growth, urbanization, employment, and the social safety net.

What's New?

14. (SBU) A comparison with last year's statement revealed a few differences. On growth, while this year's statement stressed policy continuity, the 2008 meeting stressed new programs to "expand domestic demand." The order in which consumption and investment were mentioned have switched, with investment listed first last year, and consumption first this year. Possibly more important, in 2008 the statement called for expanding central government investment, while this year's promoted private and "rational" investment growth. Within the industrial plans, the statement for the first time mentioned "new" or innovative industries. On rural reform, the 2009 statement adds a goal of expanding farmer incomes. The trade section dropped a goal of expanding imports to only focus on expanding exports. Finally, the 2009 report differed with previous years on the level of detail offered about reform, only noting it should be "deepened," but failing to list specific areas needing reform as in previous years.

The Experts Read the Tea Leaves

15. (SBU) Anxin Securities chief economist Gao Shanwen was surprised by what he called the "double loose policy tune," which made no mention of exit timing. State Information Center Economic Forecast Office Director General Fan Jianping pointed out that the statement did allow for

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future policy "adjustments" should conditions change, underscoring the leadership's concerns about 2010 economic performance. But he suggested the failure to mention inflation was an indication that the government does not see price levels as a major problem in 2010.

16. (SBU) Fan thought that listing consumption before investment indicated a shift in policy focus. NDRC's Academy of Macroeconomic Research Social Development Research Institute Director Chen Xinnian observed a move from "expanding domestic demand" (which includes investment-driven demand) to "expanding consumption." Gao agreed, speculating that the Central Government would continue to emphasize eliminating unneeded production capacity and reducing carbon emissions.

17. (SBU) Wall Street Journal reporter Andrew Batson told Econoff he was struck by the inclusion of wording on urbanization in the statement. He explained that many of his contacts are focusing on legalizing and solidifying urban residency as a means to promote consumption and economic restructuring.

Comment: What Really Happened

18. (SBU) The annual pre-CEWC Politburo meeting is an opportunity for non-State Council officials (including provincial and commercial authorities) to air their concerns about major economic policy initiatives prior to the State Council's planning sessions. Among the policies likely to be debated at the CEWC, for example, are exchange rate appreciation, restrictions on bank lending to their localities and investment projects, and allocation of the fiscal pie. While none of these specific issues were addressed directly in the Politburo statement, the focus on policy continuity certainly sent a strong message to the

State Council. Debates on the path forward, however, are clearly ongoing. This year's CEWC will apparently be held a couple weeks later in the year than in previous years. Such a delay may have been due to a lack of consensus regarding next year's policy stance among policymakers.

HUNTSMAN